

Wheat Market Outlook and Price Report: October 30th, 2017

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i) Background and Rationale for the Report

The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various Saskatchewan locations (Table 1), grain spreads (Table 2), and FOB port prices and basis (as measured by subtracting the primary elevator price (Rosetown) from the relevant port location price for individual crops) (Table 3). Table 3 is preceded by a description of the various assumptions, definitions and methodology used in arriving at the FOB port prices and in the export basis calculation.

ii) Wheat Market Outlook July. 14/17

2017/18 World Wheat Overview:

➤ **October 26th International Grains Council Grain Market Report**

- **Projections for world wheat production** are unchanged from last month's estimates at 748 million mt.
- **World ending wheat stocks for 2017/2018** are now projected to be 1 million mt higher at 249 million mt, vs last month's estimate of 248 million mt.
- **Downgraded outlooks** for Australian and Argentine wheat production have been largely offset by production grain in the EU, the US, and the Ukraine.
- **Projections** for world total grains production have been revised *upwards* by 5 million mt, largely on gains in US corn production.

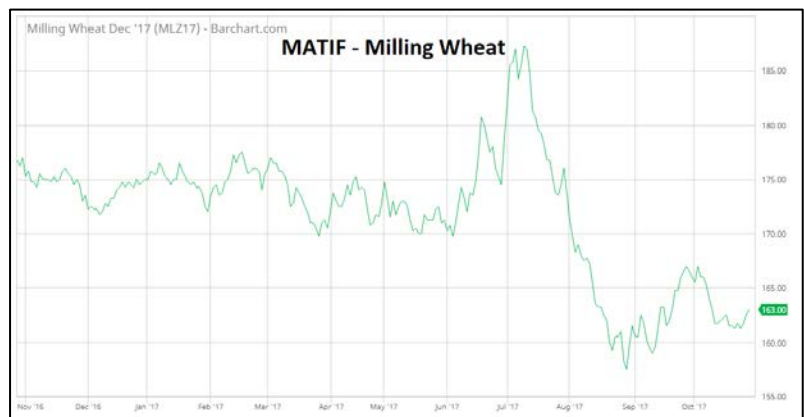
WORLD ESTIMATES					
	14/15	15/16	16/17 est.	17/18 f'cast	
million tons				28.09	26.10
TOTAL GRAINS ^{a)}					
Production	2052	2010	2133	2069	2075
Trade	322	346	352	358	359
Consumption	2010	1988	2091	2096	2104
Carryover stocks	458	480	523	497	493
<i>year/year change</i>	41	23	42		-30
Major exporters ^{b)}	151	152	179	169	172
WHEAT					
Production	730	736	754	748	748
Trade	153	166	176	174	174
Consumption	715	719	736	742	741
Carryover stocks	207	224	242	248	249
<i>year/year change</i>	16	17	18		7
Major exporters ^{b)}	66	66	76	69	71

➤ **Global wheat production and trade:**

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on this week's market events in the major wheat origins.

- **Futures:** Wheat markets traded lower going into the weekend with wheat leading the losses in Friday's trade. December contract Chicago wheat closed at 427.2, down by 4.4 cents in Fridays trade, but up by 1.2 cents for the week. December contract Kansas hard red winter wheat closed at 425.2, down by 3 cents in Fridays trade, but up by 2.4 cents for the week. In Minneapolis, December contract hard red spring wheat closed at 617, down by 3.4 cents on Friday, but up by 5.6 cents for the week, while March 2018 contract HRS closed at 628.4, up by 4.2 cents for the week, but down by 4 cents in Fridays trade.

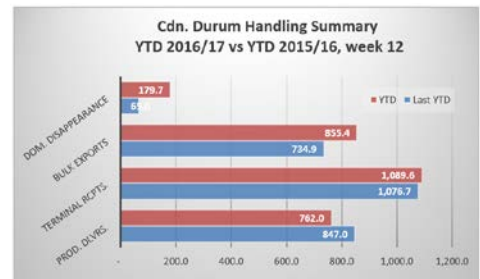
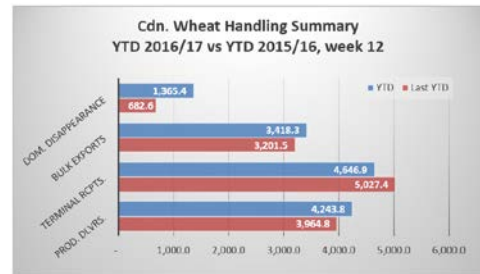
- **Funds:** Index Funds did very little during the week and seem prepared to hold their overall long, which we think is a hedge against inflation. Specs added to their overall (all grains short, with wheat -16 mln mt), and we continue to expect they will go to a 50 mln mt overall short.



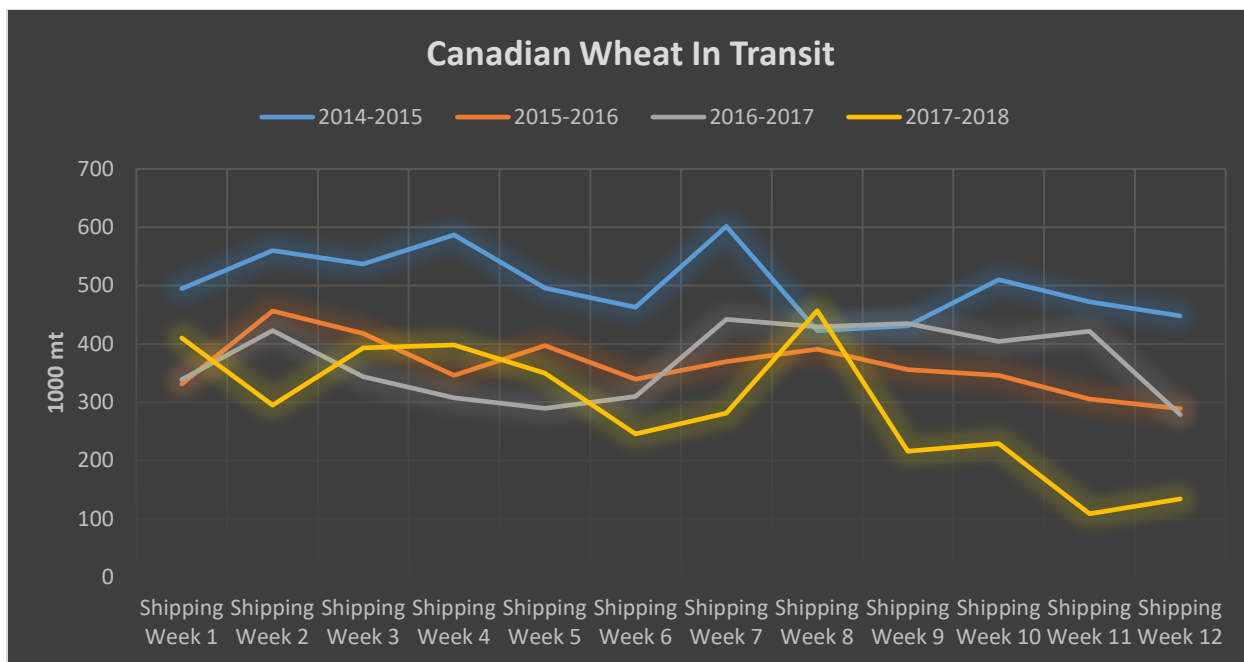
- **Matif:** Matif exchange in Europe dropped € 1.75/mt over the past week, and was up by € 0.50 in Fridays trade.

Canadian wheat:

- According to the CGC, producers delivered 353k mt of wheat into the handling system, which is up from last week's 311k mt. Exports for week 12 were 272k mt, up from last week's 232k mt, and up by 7% from last year's YTD exports.
- Elevator stocks are currently at 3.19 million mt with 1.426 million mt at primary elevators and most of the remaining inventory at port.
- *Wheat visible stocks are a big 3.2 mln mt, as shipping/ rail loadings have been smaller than deliveries into the primary elevator system.*
- Producers delivered 79k mt of **durum** into the handling system over the past week. Durum exports during week 12 amounted to 74k mt; 855.4k mt year-to-date. This is 16% ahead of last year's year to date exports of 735k mt.



- The Saskatchewan harvest is now reported to be 99% complete, with just some flax, soybeans, and sunflowers remaining. Crop quality in Saskatchewan is reported to be well above average due to abnormally good harvest weather, and overall yields are on par with the 10-year average.



- *Comparing total Canadian wheat in transit for the first 12 shipping weeks of the past 4 crop years, we can see that there has been weaker grain movement in 2017/2018 vs previous crop years. The above values are the combined total of both eastern and western rail.*
- **US wheat:**
US winter wheat planting progressed by 15% to 75% planted in this week's crop progress report, but planting remains behind the 5-year average of 80% planted for this year to date. 52% of US winter wheat is reported to be emerged as of October 22nd, which is also behind the 5-year average of 57% emerged for this year to date. The weekly US export sales report indicates that US wheat exports are at a season total of 557 million bushels, which is a 6% decline from last year's exports at this year to date.
- **Australian wheat:**
The Australian wheat harvest is under way and Victoria is reported to have received 6 – 20mm of rain this past week, while other parts of Australia remain dry. The last USDA estimate of Australian wheat production was 21.5 million mt, but it seems likely that this number could be adjusted even lower in the November 9th USDA WASDE report. Australian wheat futures ended up A\$4/mt. New crop wheat Fob values were slightly lower, and the debate continues about wheat crop size and export potential.

Argentine wheat:

Mexico and Argentina have reached agreements allowing Mexico to import wheat from Argentina, with the first shipment of 30k mt scheduled to arrive in December. Mexico has historically purchased 60–70% of its wheat imports from the US, but is seeking other suppliers due to souring relations with the US. Reports this past week also indicate that the Brazilian wheat crop is 4.76 million acres, which is 9.5% smaller vs last year, and which is expected to make Brazil a net import nation with Argentina being the likely supplier. In the 7-day outlook, Brazil is projected to have average to below average temperatures, with average precipitation in the south, and with above average precipitation in the north. Argentina is projected to have average precipitation over the next 7-10 days. Argentine wheat production was last estimated at 17.5 million mt, but it is expected that the USDA might lower this number in the November 9th WASDE report.

The Buenos Aires Grain Exchange (BAGE) put the Argentine harvest at 18% complete. Yields still below expectations, but 60% of the crop is rated good to excellent, with yields expected to improve as the harvest moves south. Old crop Argentine wheat continued to be shipped to Algeria, and it remains unclear why Argentina needs to buy non-Mercosur demand.

Brazil:

Brazilian millers are bidding US\$175/mt for new crop which is way below any other origin.

○ **EU/Russian wheat:**

The EU commission has also estimated EU soft wheat production at 141.5 million mt, which is a 1.1 million mt increase from their previous estimate.

The EU soft wheat export total is at 6.52 mln mt, still down 23% on last year. We note that Romania has shipped more wheat to non-EU destinations than Germany and the 3 Baltic states combined.

Reports this past week indicate that Ukraine's wheat exports are on pace and that winter wheat planting is 94% complete and ahead of last year's planted area for this year to date.

○ **Black Sea wheat:**

○ Black Sea wheat values were marginally lower in the nearby and difficult delivery logistics affected the carrying charges. The Russian rouble hit an 8-week low despite crude oil rising to 6-month highs.

○ The Russian crop seems to get bigger daily and we would not be surprised if the actual crop is 90 mln mt.

Significant purchases/ trades:

There was a lot of business done in international cash wheat trading last week:

- **Saudi Arabia** is tendering for 475k mt of wheat.
- **Taiwan** is tendering for 86k mt of US wheat.
- **Turkey** tendered and is reported to have bought 110k mt of 13.5 protein wheat at US\$229 - \$235 per mt.
- **Algeria** is reported to have purchased 300k mt of durum wheat from both Mexico and Canada at US\$290 per mt.
- **Vietnam** is reported to have bought 30k mt of Australian wheat for \$252 per mt.
- Little information known yet about **Ethiopia's** current tender which was to close on Friday.

Wheat Market Outlook:

Significant events:

- In the past week, India has announced that they will give their farmers a 6.8% increase in the domestic price that they pay their producers to grow wheat, which could significantly reduce Indian wheat imports. India imported 5.9 million mt of wheat in 2016/2017 and they are expected to import 3.5 million mt in 2017/2018. India is the world's 3rd largest wheat producer, and the 10-year average for Indian wheat imports is 1.6 million mt. Increased domestic wheat production could make India a net export nation.

- o In the past week, the US dollar index has gained 1.33% which could hurt US wheat exports as US wheat was already previously struggling to compete with cheaper wheat from the Black sea and Argentina.



➤ **Outlook:**

The Russian crop seems to get bigger every day, and we would not be surprised if the actual crop is as big as 90 million mt. This is causing concern in the EU where sales are way behind. For the time being, we see all business on the eastern side being done by either Russian/FSU/EU wheat; there is no need for North American wheat, except for some hard protein wheat. North American farmers are concentrating on the harvest and are ignoring sales for the present. Unfortunately, they are going to find themselves undersold which will put pressure on export premiums and futures.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT

Date: October 30, 2017

NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Dec. '17 (bu.)	Dec. '17 (mt)
1 CWRS 13.5	\$6.63	\$243.61	1 CWRS 13.5	\$6.70	\$246.18
1 CWAD 13.0	\$7.09	\$260.51	1 CWAD 13.0	\$7.19	\$264.19
1 CPSR 11.5	\$4.78	\$175.64	1 CPSR 11.5	\$4.66	\$171.23
SW Sask			SW Sask		
1 CWRS 13.5	\$6.71	\$246.55	1 CWRS 13.5	\$6.72	\$246.92
1 CWAD 13.0	\$7.33	\$269.33	1 CWAD 13.0	\$7.27	\$267.13
1 CPSR 11.5	\$4.61	\$169.39	1 CPSR 11.5	\$4.65	\$170.86
NE Sask			NE Sask		
1 CWRS 13.5	\$6.53	\$239.94	1 CWRS 13.5	\$6.54	\$240.31
1 CWAD 13.0	\$7.16	\$263.09	1 CWAD 13.0	\$7.21	\$264.92
1 CPSR 11.5	\$4.59	\$168.65	1 CPSR 11.5	\$4.49	\$164.98
SE Sask			SE Sask		
1 CWRS 13.5	\$6.59	\$242.14	1 CWRS 13.5	\$6.55	\$240.67
1 CWAD 13.0	\$7.27	\$267.13	1 CWAD 13.0	\$7.33	\$269.33
1 CPSR 11.5	\$4.58	\$168.29	1 CPSR 11.5	\$4.55	\$167.19

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.20)	(7.35)
1 CWRS 12.5	(0.37)	(13.60)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.03	1.10
2 CWAD 13.0	(0.79)	(29.03)
2 CWAD 12.5	(0.97)	(35.64)

iv) FOB Wheat Prices and Export Basis Calculation

Background and Rationale:

Reporting FOB prices at port position and primary elevator prices allows the reader to gain an understanding of both local and international wheat prices and to understand the relationship between the two, as measured by the export basis. Export basis can be defined as FOB port position prices minus the primary elevator prices at any given prairie delivery location, and is therefore reflective of transportation costs plus any premiums being captured by terminal grain elevator companies or the railway companies, at any given time.

In general, a widening basis is indicative of decreasing system performance in terms of either reduced port capacity or rail service, or both. A narrowing basis is indicative of increased available port capacity and/or better ability of the railways to provide ample service to grain shippers. In this regard, tracking these prices over time has value both in terms of producers being able to time the selling of their grain but also in terms of evaluating and setting policy related to various transportation and capacity issues.

Gray (2015) has calculated a normal basis to be in the range of C\$72/tonne. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/tonne, which indicated an inability of the grain handling and transportation system to adequately handle the record crop produced that year. This occurrence has highlighted the need to improve the level of rail service and take measures to expand port capacity where possible. It has also underscored the need for better price transparency and market information within the grain sector.

Assumptions, Definitions, and Methodology

The following background information should assist in understanding and interpreting international market signals and to relate them to the 'local' Saskatchewan wheat market:

- The price information generated for the weekly report is designed to show farmers at what price levels several wheat classes are trading at local primary elevators (Table 1) and in nearby international markets (Table 3). To express the Export Basis¹ (see *Export Basis*

¹ Gray, R.S. (2015). The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers 2012/13, 2013/14 and 2014/15.

in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are translated into Cdn. dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, Saskatchewan (see *Street Prices* in Table 3). Rosetown is used as a proxy for all primary elevators in the basis calculation. The actual handling and transportation costs from the West Coast to delivered elevator (Rosetown area) range from ~C\$58.00-C\$74.72/mt, depending on number of cars moved and elevator used.

- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
 - DNS 14% in the Pacific North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific North West (PNW) ≈ 3 CWRS in Vancouver
 - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)
 - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)
 - Abbreviations: DNS (Dark Northern Spring Wheat); HRS (Hard Red Spring Wheat); HRW (Hard Red Winter Wheat); SW (Soft Wheat); HAD (Hard Amber Durum Wheat); CWRS (Canadian Western Red Spring Wheat); CPS (Canada Prairie Spring Wheat); CWAD (Canadian Western Amber Durum Wheat)

- Hard wheat price calculations:
Exporters in Western Canada generally derive their primary elevator wheat prices from HRS values at the West Coast (Pacific Northwest - PNW). Similarly, HRW values are used for lower grade (3) CWRS.
 - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.
 - If premiums are paid for 1 CWRS 13.5, elevator companies are often able to retain the premium

- Durum wheat price calculations:
The primary export route for Canadian durum wheat is still through Thunder Bay, not the West Coast of Canada.
 - Nevertheless, the Pacific Coast has increased in importance for durum over time with 38% of total export volume crop year to date.
 - Italy is the single biggest buyer of Canadian durum wheat with 27% of total Canadian durum exports YTD (East Coast shipments).

- Optional origin grain sales:
Most major international grain companies sell 'optional origin' wheat to their customers and often cover their sales 'at best' closer to the shipment position. The Canadian grain system is not conducive to servicing optional origin sales because the volume of wheat kept in storage in port today is much smaller than prior to deregulation of the Canadian wheat market.

“The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to producers is referred to as export basis: Basis can refer to the difference between any two prices. As the largest volume port, Vancouver FOB, minus the elevator bid prices representative measure of the “export” basis for grains in Western Canada.”

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per M

Relevant FOB Prices and Export Basis				Oct. 30, 2017
Type of Wheat	FOB Prices CDA ¹ (calculated)		Street Prices	Export Basis ²
	West Coast (Cdn./mt\$)	Great Lakes (Cdn.\$/mt)	Rosetown (Cdn.\$/mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$361.72	\$334.87		
HRS	\$354.65			
HRW 11.5	\$276.47			
SWW 12.0	\$256.22			
1 CWRS 13.5 ³	\$361.72		\$255.37	\$106.35
2 CWRS 13.0 ³	\$354.65		\$224.14	\$130.51
3 CWRS ³	\$276.47		\$220.46	\$56.00
CPS ³	\$249.62		\$164.25	\$85.38
1 CWAD ⁴		\$412.11	\$255.37	\$156.74
Competing wheat: US\$/mt				
Russia 12.5 (Black Sea, 25k mt)	\$192.00			
French 11.5 (Rouen)	\$191.65			
APW 10.5 (W Coast)				
Argentine 12.0				

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency

² Export Basis = FOB Prices CDA minus Cdn. Street Price

³ DNS 14% ≈ 1 CRWS 13.5%; HRS ≈ 2 CWRS 13.0%; HRW ≈ 3CWRS; SWW ≈ CPS

⁴ Values derived to Lakehead FOB

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					Oct. 30, 2017
Canadian Funds			Grade		
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
Dec./Jan. delivery	\$9.66	\$9.47	\$7.34	\$6.79	\$6.79
Parity Track Rosetown	\$8.17	\$7.98	\$5.85	\$5.30	\$5.30
Track Bid Rosetown Area	\$6.95	\$6.10	\$6.00	\$4.47	\$4.47
Gross Margin at Elevator (\$/bu)*	\$1.22	\$1.88	-\$0.15	\$0.83	\$0.83
Gross Margin at Elevator (\$/mt)*	\$44.77	\$68.94	-\$5.57	\$30.39	\$30.39
* to cover elevation, elevator market risk, margin					